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June 12, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Sachi A. Hamai 
Interim Chief Executive Officer

REQUESTED DATA AND ANALYSIS RELATED TO THE LIVING WAGE ORDINANCE (ITEM NO. 6, AGENDA OF OCTOBER 14, 2014)

On October 14, 2014, the Board of Supervisors instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C) and the Director of the Department of Health Services (DHS), to report back on addressing the issues and components of updating the Living Wage Ordinance.

In response to this motion, the CEO convened a workgroup consisting of staff from A-C, County Counsel, DHS, and the Internal Services Department (ISD) to review the effectiveness of the current living wage, as well as to address potentially updating the Living Wage Ordinance (LWO).

Updating the Living Wage Ordinance

The attached analysis (see Attachment 1) responds to the Board instruction and includes background and information on: (1) the current living wage rate, (2) a determination of the least costly price of unsubsidized health care insurance available to contract employees, (3) the impact of the Affordable Care Act (ACA) on employees of County contractors, and (4) summary information from studies that estimate the wage rate individuals and families would need to make to meet basic subsistence needs.

The analysis indicates that the cost of unsubsidized health care insurance has increased beyond the \$2.20 per hour adopted by the Board in 2006. With the implementation of the Affordable Care Act (ACA), it is likely that individuals and families earning the County's living wage rate would qualify for other types of health insurance, such as employer-sponsored health care insurance, heavily subsidized insurance available in the State's health insurance exchange, or Medi-Cal.

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In addition, the wages paid by many County contractors will be impacted in those municipalities that increase their minimum wages. The City of Los Angeles has enacted an increase to its minimum wage to \$15 an hour by 2020, with future annual increases determined by the city's Bureau of Contract Administration. It was recently reported in the *Los Angeles Times* that the cities of West Hollywood and Santa Monica may also pursue raising their minimum wages.

Attachment 2 reflects our rough estimate of the impact of adjusting the hourly living wage to a range of potential wage levels ranging from \$10.50 to \$15.79 an hour. This range is based on the City of Los Angeles minimum wage levels, plus the rate of \$15.79, a figure cited in the self-sufficiency chart contained in the analysis.

Conclusion

In light of the information presented in the analysis, it appears appropriate to change the County's existing dual-tiered living wage system (including both wages and health benefits) to a single-tier living wage rate, as the ACA essentially renders the dual tiered system obsolete.

If the Board makes a determination to modify the LWO, it is recommended that the revised rate(s) apply prospectively only to new Proposition A and/or cafeteria contracts executed after the effective date of the LWO change. This would prevent the County from reviewing and performing a new cost analysis to determine the cost effectiveness (required by the LWO) of the 198 existing contracts subject to the living wage.

If you have any questions or need additional information regarding this matter, please contact Sid Kikkawa at (213) 974-6872, or at skikkawa@ceo.lacounty.gov.

SAH:JJ:SK:
GS:MV:alc

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Health Services
Internal Services Department

REQUESTED DATA AND ANALYSIS RELATED TO THE LIVING WAGE ORDINANCE

On October 14, 2014, on a motion by Supervisor Mark Ridley-Thomas, amended by Supervisor Zev Yaroslavsky, the Board of Supervisors (Board) instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C) and the Director of the Department of Health Services (DHS), to report back on the following components to address updating the Living Wage Ordinance (LWO):

1. Directed the A-C to report back to the Board in 120 days with the Living Wage Annual Report, an annual review and update of the living wage labor calculation based on the four methodological options proposed by the Chief Administrative Officer in his 2004 report to the Board for a LWO and updated in the CEO's September 20, 2013, revised report on the LWO;
2. Directed the CEO, in consultation with the A-C and the Director of Health Services, to determine the least costly price of unsubsidized health care insurance available to contract employees; and to analyze and report back to the Board in three weeks on the impact of the Affordable Care Act (ACA) on employees of County contractors subject to the provisions of the LWO, and include an evaluation of eliminating the dual-tiered system; and
3. Directed the CEO to estimate the hourly wage a worker who resides in the County needs to earn to meet the basic subsistence needs for a single adult, a single parent family with one dependent child, a two parent family with one parent working and with one and two dependent children, and a two working parent family with one and two dependent children in the Los Angeles region, and report back in 60 days.

Supervisor Molina made a motion to instruct the County Counsel to present a modified LWO to eliminate the dual-tiered wage structure due to the changes mandated by the ACA and to establish a single tier for all new contracts of \$11.84 per hour.

Supervisor Ridley-Thomas requested the CEO's report to also include an evaluation of Supervisor Molina's motion.

Additionally, on November 5, 2014, on the motion of Supervisor Michael Antonovich, the Board directed the CEO and A-C to analyze and report back on the complete fiscal impact to the County's budget of increasing the living wage for contract employees.

Our office convened a workgroup consisting of staff from A-C, County Counsel, DHS, and the Internal Services Department (ISD) to gather and produce information requested by the Board to review the effectiveness of the current living wage.

BACKGROUND

On June 22, 1999, the Board adopted the LWO applicable to Proposition A and cafeteria services contracts. In adopting the LWO, the Board made a finding that the County of Los Angeles is the principal provider of social and health services within the County, especially to persons who are compelled to turn to the County for such services. The Board also acknowledged that employers' failure to pay a living wage to their employees causes them to use such services, thereby placing an additional burden on the County.

The LWO requires employers with Proposition A or cafeteria contracts with the County to pay their employees a living wage in order to help reduce the burden on the County's social and health services. Under the LWO, all employers must pay their employees either a living wage of \$11.84 per hour without health benefits, or \$9.64 per hour plus not less than \$2.20 per hour per employee toward health benefits.

Currently, there are 198 County contracts subject to the LWO. Only 14 contracts pay \$9.64 per hour and contribute at least \$2.20 per hour toward health benefits. The remaining contracts pay the living wage of at least \$11.84 per hour.

UPDATING THE LIVING WAGE

Since 2006, the A-C provided the Board with annual updates to the living wage using the same methodology they used in calculating the living wage that the Board adopted in 1999. The living wage is based on the minimum gross earnings an individual, living in a household of three (two adults and a child), would need to earn to become ineligible for cash assistance under the CalWORKs program.

On September 20, 2013, the CEO provided a report to the Board that included three additional methodologies to update the living wage rate. As directed by the Board, the A-C updated the current living wage using the four methodological options noted in that report.

It is important to note that under the ACA, a single income family of three (the methodology used to calculate the living wage rate under the original LWO) will receive medical insurance at no cost since the employee and family members will be eligible to receive Medi-Cal. Further, individuals or a family of two would qualify for employer-sponsored insurance, or heavily subsidized insurance available in the State's health insurance exchange if their employer does not offer insurance.

It should be noted that prior to the ACA, the cost of unsubsidized health care coverage covered by the Living Wage Program increased beyond the \$2.20 per hour adopted by the Board in 2006. Using the same methodology used to calculate the \$2.20 per hour figure, it is estimated that the current cost of unsubsidized health care coverage is \$3.87 per hour.

The chart on the next page compares the current living wage, with updated rates for the four options.

Description	LIVING WAGE RATE				
	Current	Using Existing Methodology (Option 1)*	Using CPI Annually (Option 2)	Using CPI for Years General Salary Movement was Approved (Option 3)	Using General Salary Movement (Option 4)
Hourly rate with insurance provided by contractor	\$9.64	\$9.03	\$11.71	\$10.18	\$10.64
Cost of health insurance**	\$2.20	\$3.87	\$3.87	\$3.87	\$3.87
Hourly rate without insurance provided by the contractor	\$11.84	\$12.90	\$15.58	\$14.05	\$14.51

* The decrease in hourly rate is due to the State's reduction in the amount of public assistance paid to individuals.

** The cost of health insurance may no longer be applicable, given a single income family of three being paid the County living wage would be eligible for Medi-Cal insurance or employer-sponsored insurance.

DETERMINING LEAST COSTLY HEALTH CARE INSURANCE

To determine the least costly price of unsubsidized health care insurance, the workgroup reviewed the monthly premium costs for bronze, silver, and gold Health Maintenance Organization (HMO) plans that can be purchased via the State's health care exchange website. The gold HMO plans generally cover 80% of the average annual health care cost and are comparable to the health insurance coverage offered to County employees. Although the monthly premiums for the gold plans are higher, a family's annual out-of-pocket health care expenses are generally lower. For example, according to the State's health care exchange, a healthy family of three, with two adults 35 years of age and a child less than 12 years of age, could have annual estimated out-of-pocket health care expenses of \$1,800 per year under the gold plan. The same family could have annual estimated out-of-pocket health care expenses totaling \$2,412 under the silver plan, and \$5,400 under the bronze plan.

The cost comparisons between the HMO plans reviewed were based on using a three person household, which is also the household size used to calculate the insurance component of the County's living wage.

Based on the cost information provided by the State's health care exchange, Molina Healthcare HMO had the least costly bronze plan, and HealthNet Community Care HMO had the least costly silver and gold plans. The chart below provides the estimated monthly unsubsidized cost

for each plan by age range. The monthly premium costs were calculated based on using the mid-point of each age range for the two adults, with a child less than 12 years of age.

Age Range	ESTIMATED MONTHLY INSURANCE COST		
	Molina Healthcare HMO Bronze Plan	HealthNet Community Care HMO Silver Plan	HealthNet Community Care HMO Gold Plan
20-29	\$438	\$510	\$574
30-39	\$510	\$595	\$669
40-49	\$584	\$680	\$765
50-59	\$844	\$984	\$1,106
60-65	\$1,099	\$1,281	\$1,440

It is important to note that due to the implementation of the ACA, a contract worker earning the County's current living wage of \$11.84 would be eligible for Medi-Cal or highly subsidized health care and would not have to pay the monthly insurance rates listed above.

WAGE RATE IN LOS ANGELES COUNTY TO MEET BASIC SUBSISTENCE NEEDS

In order to determine the income that an individual or family would require to meet their basic subsistence needs in Los Angeles County, we reviewed a number of studies conducted by various organizations. We also consulted with the UCLA Anderson School of Management. As the chart on Page 6 shows, there is a tremendous variation between suggested self-sufficiency standards among each study. The methodology suggested by UCLA Anderson School of Management is based on the size of the family unit without regard to the number of earned incomes, while the Massachusetts Institute of Technology study assumes one sole provider. The remaining studies assume that each parent works. The hourly wage is based on an adult (or two adults) working 2,080 hours per year. A brief description of each study is discussed below.

The 2013 U.S. Census Bureau's Poverty Threshold was used in conjunction with the Cost of Living index from the Council for Community and Economic Research to account for Los Angeles County's higher cost of living. This index considered the cost of housing, utilities, transportation, health care, groceries, as well as miscellaneous goods and services for the Los Angeles area.

The Living Wage Calculator was developed by Dr. Amy K. Glasmeier of the Massachusetts Institute of Technology and allows a user to search for results based on county or city jurisdiction. This calculation for Los Angeles County is what an individual must earn to support himself/herself or their family, if they are a sole provider. Typical expenses include food, child care, medical, housing, transportation, other, and taxes.

The 2014 Self-Sufficiency Standard for California was prepared for the Insight Center for Community Economic Development. According to the study, the Self-Sufficiency Standard takes “a real world approach to measuring need.” The standard assumes that each adult works and that each adult uses a car to commute to work. Costs include housing, child care, food, health care, transportation, miscellaneous items, taxes, as well as an emergency savings fund.

According to the Economic Policy Institute (EPI), the 2013 Family Budget Calculator determines the income a family needs in order to live modestly, and factors such costs as housing, food, child care, transportation, health care, taxes, and other necessities. In a two parent household, EPI assumes that both parents work. Families with one child are assumed to have a four year old, and families with two children are assumed to have a four year old and an eight year old.

Published in 2013 by the California Budget Project, “*Making Ends Meet: How Much Does It Cost To Raise a Family in California?*” estimates the amount families and individuals need to earn to achieve a modest standard of living without assistance from public programs. The report factors such costs as housing, food, and child care.

Studies	SELF-SUFFICIENCY INCOME STANDARDS			
	Single Adult	Single Parent Family with One Child	Two Parent Family with One Child	Two Parent Family with Two Children
U.S. Census Poverty Threshold & Cost of Living Adjustment (UCLA School of Business)*	\$16,239/ \$7.81 per hour	\$21,516/ \$10.34 per hour	\$25,126/ \$12.08 per hour	\$31,656/ \$15.22 per hour
Living Wage Calculator (Massachusetts Institute of Technology)**	\$23,650/ \$11.37 per hour	\$48,942/ \$23.53 per hour	\$44,970/ \$21.62 per hour	\$47,736/ \$22.95 per hour
Self-Sufficiency Standard (Insight Center for Community Economic Development)***	\$29,167/ \$14.02 per hour	\$48,011/ \$23.08 per hour	\$56,893/ \$27.35 per hour	\$65,901/ \$31.68 per hour
Family Budget Calculator (Economic Policy Institute)****	N/A	\$61,037/ \$29.34 per hour	\$69,991/ \$33.65 per hour	\$74,605/ \$35.87 per hour
Making Ends Meet (California Budget Project)*****	\$32,844/ \$15.79 per hour	N/A	N/A	\$83,561/ \$40.17 per hour

- * 2013 U.S. Census Bureau's Poverty Threshold adjusted by 2014 Council for Community and Economic Research's Cost of Living Index.
- ** <http://livingwage.mit.edu/counties/06037>
- *** <http://www.insightcced.org/calculator.html>
- **** <http://www.epi.org/resources/budget/>
- ***** http://www.cbp.org/pdfs/2013/131212_Making_Ends_Meet.pdf

FISCAL IMPACT OF THE LIVING WAGE INCREASE TO THE COUNTY'S BUDGET

As we have indicated in previous reports to the Board, and as underscored in this report, we do not have the ability to accurately calculate the potential contract cost increases associated with raising the living wage. The Estimated Contract Cost chart (Attachment 2) reflects our rough estimate of the impact associated with adjusting the hourly wage.

It is important to note that the actual cost related to the living wage rate change may be less since our estimates assume that contractors would be paying the new living wage rate without health benefits to their employees, when some of them might be paying more. Also, it should be noted that the calculations in the attachment do not account for changes in the contract scope of work that may increase the number of employees subject to the LWO, and are broad and simple calculations.

Of the 198 contracts, 14 contracts are paying the lower rate of \$9.64 per hour, but are also providing private health insurance to their employees and their families. The remaining contracts are paying the higher wage of \$11.84 per hour. Under the ACA, those remaining contractors will be required to pay for private insurance or pay a penalty. The County living wage does not take into account this additional cost of insurance for the contractors that are presently paying the higher wage, or the subsidized cost of insurance.

CONCLUSION

As noted in this report, under the ACA, a single income family of three (the methodology used to calculate the living wage rate under the original LWO) would be eligible for Medi-Cal. Individuals and families of two earning the County's living wage rate would qualify for employer-sponsored insurance, or heavily subsidized insurance available in the State's health insurance exchange. As a result, these facts combined with the implementation of the ACA, essentially render the dual tiered system obsolete.

Based on the information presented, it appears the best solution is to change the dual-tiered system to a single-tier living wage rate.

If the Board makes a determination to modify the LWO, it is recommended the changes be effectuated through an amendment to the ordinance and that the Board instruct the CEO, A-C, and ISD to work with County Counsel to revise the ordinance and implementation guidelines.

Furthermore, should the Board make a determination to modify the living wage rate, it is our recommendation that the revised rate would apply prospectively only to new Proposition A and/or cafeteria contracts executed after the effective date of the LWO change. This would prevent the County from reviewing and performing a new cost analysis to determine the cost effectiveness (required by the LWO) of the 198 existing contracts subject to the living wage.

LIVING WAGE/PROP A CONTRACTS						
FY	Effective Date	Hourly Rate	GROSS		NCC	
			Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 16/17	7/1/16	\$10.50	N/A	N/A	N/A	N/A
FY 17/18	7/1/17	\$12.00	\$1.4 million	\$1.4 million	\$624,006	\$624,006
FY 18/19	7/1/18	\$13.25	\$11.1 million	\$12.5 million	\$4.9 million	\$5.5 million
FY 19/20	7/1/19	\$14.25	\$8.9 million	\$21.4 million	\$3.9 million	\$9.4 million
FY 20/21	7/1/20	\$15.00	\$6.7 million	\$28.0 million	\$2.9 million	\$12.3 million
FY 21/22	7/1/21	\$15.79	\$7.0 million	\$35.0 million	\$3.1 million	\$15.4 million

- **Based on LA City proposed min wage schedule.**
- Assumes all workers are full-time and earn \$11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from \$11.84 to \$12.00, from \$12.00 to \$13.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.

PROPOSAL 1: LIVING WAGE/PROP A CONTRACTS						
FY	Effective Date	Hourly Rate	GROSS		NCC	
			Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 15/16	1/1/16	\$12.00	\$709,696	\$709,696	\$312,003	\$312,003
FY 16/17	1/1/17	\$13.25	\$6.3 million	\$7.0 million	\$2.7 million	\$3.1 million
FY 17/18	1/1/18	\$14.25	\$10.0 million	\$16.9 million	\$4.4 million	\$7.4 million
FY 18/19	1/1/19	\$15.00	\$7.8 million	\$24.7 million	\$3.4 million	\$10.9 million
FY 19/20	1/1/20	\$15.79	\$6.8 million	\$31.5 million	\$3.0 million	\$13.9 million
FY 20/21	~	\$15.79	\$3.5 million	\$35.0 million	\$1.5 million	\$15.4 million

- **New proposed min wage schedule based on calendar year.**
- *Costs are based on Fiscal Year.*
- Assumes all workers are full-time and earn \$11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from \$11.84 to \$12.00, from \$12.00 to \$13.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.

PROPOSAL 2: LIVING WAGE/PROP A CONTRACTS						
FY	Effective Date	Hourly Rate	GROSS		NCC	
			Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 15/16	1/1/16	\$13.25	\$6.3 million	\$6.3 million	\$2.7 million	\$2.7 million
FY 16/17	1/1/17	\$14.25	\$10.7 million	\$16.9 million	\$4.7 million	\$7.4 million
FY 17/18	1/1/18	\$15.00	\$7.8 million	\$24.7 million	\$3.4 million	\$10.9 million
FY 18/19	1/1/19	\$15.79	\$6.8 million	\$31.5 million	\$3.0 million	\$13.9 million
FY 19/20	~	\$15.79	\$3.5 million	\$35.0 million	\$1.5 million	\$15.4 million

- **Proposed min wage implementation beginning with \$13.25.**
- *Costs are based on Fiscal Year.*
- Assumes all workers are full-time and earn \$11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from \$11.84 to \$13.25, from \$13.25 to \$14.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.